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TAGS: [ENRG](#) [EPET](#) [ECON](#) [BEXP](#) [KU](#)  
SUBJECT: SECRETARY OF ENERGY THANKS GOK FOR KATRINA AID,  
BRIEFS ON ENERGY BILL AND REFINERY CAPACITY, AND URGES  
INCREASED INVESTMENT IN KUWAIT'S UPSTREAM AND DOWNSTREAM  
SECTORS

Classified By: Ambassador Richard LeBaron for reasons 1.4 (b) and (d)

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11. (U) Summary: During his November 13-14 visit to Kuwait,  
Secretary of Energy Samuel Bodman thanked the Government and

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people of Kuwait for their generous support for Hurricane  
Katrina victims, as well as their support of reconstruction  
efforts in Iraq, Pakistan and elsewhere. The Secretary  
briefed Energy Minister and current OPEC President Shaykh  
Ahmad Fahd Al-Ahmad Al-Sabah on details of the new U.S.  
energy bill as well as plans to reactivate refining and  
production capacity lost in the recent hurricanes. Finally,  
the Secretary urged Kuwait to increase its investment in both  
upstream and downstream capacity, and specifically asked the  
Minister and other oil sector leaders to work with other  
countries in the GCC to publicize the investments that are  
being made to increase capacity.

12. (U) While in Kuwait, the Secretary met with the Energy  
Minister and Undersecretary Issa Al-Own, dined with the  
Minister and top Ministry of Energy and Kuwait Petroleum  
Corporation officials, met with representatives of six U.S.  
companies active in the energy sector in Kuwait, and toured  
the EQUATE petrochemical facility, a highly successful joint  
venture between Dow Chemical and Kuwait's Petrochemical  
Industries Company. The Secretary was interviewed by the  
Editor-in-Chief of the Arabic daily newspaper Al-Qabas, and  
also conducted a well-attended press conference prior to his  
departure, where he emphasized the public themes of his trip  
throughout the region. End Summary.

Secretary Thanks Kuwait For Katrina Support And More

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13. (SBU) During a November 13 meeting with Energy Minister  
Shaykh Ahmad Fahd Al-Ahmad Al-Sabah, Secretary of Energy  
Samuel Bodman told the Minister that his main objective in  
coming to Kuwait was to thank the Government and people of  
Kuwait for their generous support for the people and  
communities affected by Hurricane Katrina. Shaykh Ahmad said  
that the relations between the United States and Kuwait

"demand this kind of help." He added that the National Assembly will take up the matter soon, in order to approve the entire aid package.

14. (C) The Secretary also thanked Kuwait for all of its support for reconstruction efforts in Iraq, as well as support for the coalition efforts in Iraq and continuing logistical and financial support for Operation Iraqi Freedom. The Secretary also noted the generosity of Kuwait towards Pakistan in its recent earthquake crisis, and thanked Kuwait for being part of the aid and reconstruction efforts there.

#### Restoring U.S. Refinery and Production Capacity

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15. (SBU) Secretary Bodman provided a briefing to Shaykh Ahmad on efforts to restore refining and production capacity lost in the recent hurricanes in the Gulf region of the U.S., and shared with the Minister specific details on shut-in oil and gas production as well as damage to offshore platforms and other facilities. Shaykh Ahmad was shown pictures of some of the destruction throughout Louisiana and Mississippi. Secretary Bodman said that he expected full refining and production capacity to be back online by June or July of 2006.

#### The New Energy Bill: "Seeds of Recovery"

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16. (SBU) The Secretary told Shaykh Ahmad that, with the recently passed Energy Policy Act of 2005, the "seeds of recovery" had been sown for the U.S. energy industry to embark on a long-term effort to build capacity throughout the system. He also explained that, in Dubai that morning, he had just announced the publication of the first-ever Arabic translation of the Energy Information Administration's International Energy Outlook. Turning to the issue of power generation, Shaykh Ahmad asked about the use of gas for power plants in the U.S., to which the Secretary responded that the gas has become very expensive in the U.S. and that an increase in nuclear power generation is expected over the

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long-term.

#### More Dialogue Needed Between Producers and Consumers

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17. (SBU) The Minister said that he was very glad that the Secretary had come for this visit and that it was "important

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to have dialogue between OPEC members and the major consumers." During the November 13 meeting Shaykh Ahmad called for increased cooperation between producers and consumers, and he repeated this point during the dinner that evening. He noted that the announcements and intentions by producers to increase production combined with conservation strategies announced by consuming nations was a good overall strategy and worth continuing.

#### More Investments Needed in Upstream and Downstream

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18. (U) Secretary Bodman emphasized the importance of increased investments in upstream and downstream capacity, especially in the current climate of high prices for consumers and high profits for producers. Within that framework, he also urged the GOK to move forward on specific new investments, such as development of the northern oilfields and construction of a new refinery.

19. (SBU) Shaykh Ahmad said that the Kuwait National Petroleum Company (KNPC) was currently looking for a joint venture partner for the new refinery to be constructed in Kuwait, and that the end-market for this refinery would be the power sector in Kuwait. He added that most companies

"are reluctant to do the downstream side" because of the smaller profit margins. He said that "the Chinese, Spanish, and others get involved" in downstream operations, but not the large IOCs. Secretary Bodman noted that oil producers are increasingly needing to create their own product distribution networks, which includes refineries, and that includes both companies and countries involved in oil production. Ministry of Energy Undersecretary Issa Al-Own agreed, noting that Kuwait's "investments are tied to strategy, not profits," and that Kuwait needed to find a way to "announce that to the U.S. public."

#### Many Projects, Few Bidders, High Costs

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¶10. (SBU) Shaykh Ahmad noted that the Ministry of Energy, KPC, and its subsidiaries all have many tenders out for bid, but that they were only finding two or three bidders for each project, whereas in the past they have always had more. He said that the resources of the engineering, construction, and energy services companies are "stretched thin," especially for Kuwait's large projects involving expansion of its export facilities and oil infrastructure. The huge number of projects throughout the region and the scarcity of bidders translated into Kuwait paying "70% more than the real price" for any oil infrastructure project, according to Shaykh Ahmad, with further cost increases expected. He gave the example of the new refinery, which has gone from an estimated cost of \$3.5 billion to \$5.5 billion.

¶11. (SBU) "Everybody is busy," Shaykh Ahmad said, referring to the companies needed for expansion of the upstream and downstream sectors. In the past, he explained, companies like Bechtel and Fluor "usually only took one project at a time. Now they have numerous projects" each. He rattled off a list of projects with involvement by U.S. companies in Kuwait, including the refinery expansion projects (Fluor) and a new olefins petrochemical facility (Foster Wheeler). He said that Kuwait is "ready to accept a partner" in its new refinery, with a steady supply of crude secured by KOC. Shaykh Ahmad described the EQUATE petrochemical company as a "successful model" for such a joint venture and that Kuwait "could do this with refineries." According to the Minister, Kuwait has committed to invest \$52 billion in expansion of the upstream and downstream sector over the next twenty years.

¶12. (SBU) The Minister offered a brief overview of projects in the electricity and water sector, explaining that both sectors were seeing critical shortages. Kuwait needs to double its power and water capacity in eight years, he said, and the increase in power capacity alone will cost Kuwait KD

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6 billion (\$20.5 billion). (During the breakfast with the Secretary on November 14, one U.S. engineering company

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executive said that he expected to see an increasing amount of power shortages and blackouts in Kuwait without significant investment in new capacity.)

#### A Need For Public Announcements Of Investments

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¶13. (SBU) Secretary Bodman explained to Shaykh Ahmad how he had asked executives of U.S. oil companies to provide him with information on how their companies are investing in expanding capacity, and asked the Minister to consider providing similar information through the GCC countries. He told the Minister that it would be useful to have a GCC statement on total investments in new capacity and plans for future investments. Shaykh Ahmad responded by saying that he could try to raise the investment issue at the final OPEC meeting of the year, to be held in Kuwait in December, and he said that he thought that "most sides will be happy to reveal their downstream investments." He said that he would "look

at making public announcements" at the OPEC meeting, "and expand from there." He asked for specific proposals for such announcements, and the Secretary explained that most useful would be an official statement of the facts of actual upstream and downstream investment.

#### White House Statements On OPEC Appreciated

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¶14. (C) Turning back to the issue of prices, Shaykh Ahmad took exception to the common instinct to blame OPEC for high oil prices. "OPEC, OPEC, OPEC," he declared, jabbing his finger in the air for emphasis. "Everybody says it's OPEC, but there are many other issues, including taxes." The Minister then said that he wanted to thank the White House and the U.S. Government for making "reasonable announcements" regarding OPEC policy during his time as OPEC President. "They supported OPEC, they didn't attack it," he said, and he added that it was "helpful not to have the blame put on OPEC." He repeated that he appreciated the "public support" of the USG.

#### Kuwaiti Still Waits For A Partner For U.S. Refinery Investment

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¶15. (SBU) Shaykh Ahmad said that the GOK is ready to invest in a joint venture for the construction of a new refinery in the U.S., but that it needed to identify a U.S. partner that could bring the technical expertise and construction experience to the table. He added that he has already received requests from Louisiana and Mississippi to build a new refinery in those states. DoE Senior Advisor Molly Williamson was told by KPC officials over dinner that the interest by Kuwait in investing in refining capacity in the U.S. is sincere. She provided an update to these officials on current legal issues concerning refinery construction in the U.S.

#### Gas Need Remains Critical

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¶16. (C) Throughout the visit the Secretary heard about Kuwait's shortage of gas and how this affects its ability to generate power and meet the increasing demands of the growing petrochemical sector. The Minister put it simply: "We don't have a lot of gas, this is our problem". He described the holdup over a proposed pipeline to bring gas from Qatar to Kuwait as a "big problem" with Saudi Arabia, and noted that Kuwait did not have enough refining capacity to meet its own current and future needs. While suggesting that Kuwait has some new gas reserves, he said that it still had a "problem offshore with the Iranians," referring to the disputed offshore Al-Dorrah gas field. He added that Kuwait would like to have a choice to rely on a reliable source of gas or to refine it from crude, but did not want to be forced into one or the other.

#### U.S. Companies Offer Mixed Reviews

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¶17. (SBU) In the delegation's breakfast meeting with Kuwait-based representatives of U.S. companies, the Secretary

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heard mixed reviews of the business and investment opportunities in Kuwait's energy sector. Despite the insistence by the Minister and others that the vote for the enabling law allowing foreign companies to participate in the development of the northern oilfields would pass through the National Assembly, representatives of Chevron and ExxonMobil remained skeptical. "They do have the National Assembly votes if they push it," said one executive, "but they (the GOK) won't." They also expressed concern about the profitability of the project and the need for Kuwait to compete with other, more promising, investment opportunities throughout the region.

¶18. (SBU) The oil company executives were in agreement that Kuwait would see a production drop in the future if it did not bring in outside technical assistance, with one executive saying that "that's what it will take to change things." Those providing equipment for the new power plants and petrochemical facilities noted that plans were being made for these facilities without a secure supply of gas, and that Kuwait could not produce the amount or type of gas it needed for these projects.

¶19. (SBU) The executives were all in agreement with the Minister's comments to the Secretary, that there were fewer bidders on energy infrastructure projects because the companies were all stretched thin. The lump-sum mentality with small margins was keeping many companies away, according to one executive, who added that he was beginning to see a change in mentality by some elements of the Kuwait oil industry away from lump-sum bids to smaller packages that could be negotiated with numerous bidders. The provision of energy infrastructure equipment and services has gone from a buyer's to a seller's market, he noted.

¶20. (U) The breakfast meeting concluded with some of the executives describing the ways in which they and their companies are involved in community outreach, skills development, and private sector development in Kuwait. Chevron, for example, provides funding through AMIDEAST for young Kuwaitis to go the U.S. and study English in summer camps. Fluor has twenty young Kuwaiti engineers currently in the U.S. for training, and is getting involved with the LOYAC youth organization to provide summer jobs for Kuwaiti youth. The ExxonMobil executive spoke of the rejuvenation and expansion of the American Business Council. The Secretary thanked the companies for this involvement and encouraged them to do more.

#### EQUATE: A Kuwait-American Success Story

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¶21. (U) The Secretary's last stop in Kuwait was a visit to the EQUATE petrochemical facility, a joint venture between Dow Chemical and the GOK's Petrochemical Industries Company (PIC), with a minor stake held by two publicly-traded Kuwaiti companies. EQUATE CEO Hamad Al-Terkait provided an overview presentation on the company and its future expansion plans, followed by a tour of the facilities. Established in 1995 with a \$2 billion investment, the company is now the number one producer of glycol in the world and PIC has become Dow's largest co-investor in other projects around the globe. Al-Terkait emphasized the reliability of the feedstock that Kuwait can provide to such projects, but noted that the increased amount needed for future projects might be harder to secure. Dow and PIC now have a total of over \$6 billion in investments together worldwide.

¶22. (U) Secretary Bodman's visit to Kuwait received widespread positive press coverage, to be summarized in a separate media reaction cable.

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